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SUBJECT: NEW BRUNSWICK STILL BULLISH ON NUCLEAR POWER DESPITE DELAYS  
WITH POINT LEPREAU REFURBISHMENT

REF: 08 HALIFAX 0084 AND PREVIOUS

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**¶1.** SUMMARY: The New Brunswick government is hopeful that the \$1.4 billion project to refit the province's aging nuclear reactor gets back on track soon. Meanwhile the delay in finishing the refurbishment has had no impact on the government's study into whether to build a second or a third reactor at Lepreau, an idea that comes with both high financial and political risks. END SUMMARY.

**¶2.** Officials with New Brunswick Power (NBP), the provincially owned utility, are cautiously optimistic that their \$1.4 billion project to refurbish the Point Lepreau nuclear power plant outside Saint John will meet a new deadline of December 2009. NBP executives revealed on January 20 that the project was three to four months behind schedule and would not be finished by September as originally planned. The refurbishment is a complex undertaking consisting of a replacement of all fuel channels, tubes and pipes, plus other station maintenance work. According to NBP, project engineers are experiencing problems using specially designed remote control equipment that allows them to work outside the radioactive zone. Apparently the equipment is not performing the way the designers had predicted and work has fallen at least three months behind schedule. (Details of the refit project can be found at:  
<http://poweringthefuture.nbpower.com/en>)

**¶3.** NBP started the refurbishment project in April 2008, in partnership with Atomic Energy of Canada Limited (AECL), the federal crown corporation that designs, markets and builds Canada's CANDU reactors. AECL designed and built the Lepreau reactor, a CANDU 6, and brought it into service in 1983. In recent years, and as Lepreau was nearing the end of its lifespan, NBP and the provincial government were forced to decide whether to mothball the aging plant or refurbish it, both options an expensive undertaking. Although NBP operates at arm's length from the provincial government, what happens with the utility is ultimately the responsibility of the government of the day and consequently the decision on what option to take would rest with provincial politicians. In 2005, the former New Brunswick Tory Government decided on the refurbishment option, but not without much handwringing over the cost and the potential impact on the utility if the project ran into significant cost overruns. However, the Tories were defeated in a September 2006 general election and the new Liberal government under Premier Shawn Graham inherited the project. Graham and his government have embraced the project, seeing it and a potential second reactor, as cornerstones of their strategy to develop the Saint John area into a new energy hub for North America.

14. The overall budget for the Lepreau refit was originally set at \$1.4 billion, including \$400 million to pay for replacement power. Lepreau produces one-third of the province's power needs, so NBP has been buying replacement power from neighboring Hydro-Quebec since taking the reactor offline last spring. Now with the delay in getting Lepreau back in service, NBP estimates that it will have to pay as much as \$90 million in extra costs. NBP is already burdened with a \$6.9 billion net debt, so there is no room for the utility to absorb the extra expense. Going to the customers to get an increase in power rates is not an option since the Graham government was elected on a promise not to raise electricity rates any more than 3% annually before 2010. The utility will have no option other than to realign its financing and spread the extra cost over the new 25-year lifespan of the plant.

15. Despite the delay in getting Lepreau back in service, the Graham government maintains that this setback will have no impact on its ongoing study into whether to build a second reactor at Lepreau. The Premier said on February 2 that he was still optimistic that Saint John would house a second, or even a third, reactor. To that end, the province is courting two unnamed private sector companies to invest in a 1,100 megawatt reactor, which would export most of its output to the northeastern United States. The new players would join an existing group already studying the proposal called Team CANDU, led by AECL in partnership with private sector technology and engineering firms. While funding is a major factor in deciding to go ahead with the second reactor, another concern for New Brunswick electricity customers is AECL which ratepayers and media editorial writers have criticized for its management of the Lepreau I refit, especially for not assuming more of the risks. Those criticisms prompted the Premier to publicly confirm his support for AECL, saying that he still had confidence in the corporation both in completing the Lepreau I refit and its ability to handle the construction of a new reactor.

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16. COMMENT: Premier Graham acknowledges that the massive Lepreau refit is the one issue that keeps him awake at night because of the financial consequences for his small and fiscally-challenged province. It comes as no surprise therefore that the provincial energy department is working closely with NBP and AECL in trying to get the project back on track by bringing in new staff and realigning work priorities. In the meantime, senior energy officials have told us that there has been no let up in their research into whether Lepreau II will become a reality. There are already investors lined up willing to pay for the estimated \$50 million cost of a three-year licensing application and environmental review, but details on construction, operating and financing costs, and rates of return to investors all need to be fleshed out as well as market conditions in New England. For now, Lepreau II is still a viable project on the drawing board, but no one is underestimating the financial and political risks particularly for a government which has staked its future on using nuclear power as a significant component in its energy hub plan. END COMMENT.

FOSTER